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S E C R E T SECTION 01 OF 04 BEIJING 007371

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TAGS: [CH](#) [ECON](#) [EFIN](#) [IR](#)

SUBJECT: TREASURY U/S LEVEY DISCUSSES IRAN WITH CHINESE  
REGULATORS AND BANKS

Classified By: Ambassador Clark D. Randt for reasons 1.4 (b/d)

#### SUMMARY

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11. (S) Summary. Treasury Undersecretary Stuart Levey met Chinese financial regulators and bank leaders on November 13 to warn China of the increasing risk posed by Iran to the Chinese financial system, as European banks curtail their relationships with Iranian entities. U/S Levey detailed the threat posed by Iran's poor internal financial controls and deliberate attempts to deceive foreign financial institutions into channeling funds used to further its nuclear and missile programs. He emphasized that many countries and global financial institutions have decided that the "extraordinary due diligence", as required by the October 11 Financial Action Task Force (FATF) guidance for implementing UNSCRs 1737 and 1747, is not possible, or worth the risk or cost to financial institutions. U/S Levey passed more detailed information regarding Iran's deceptive financial practices and the most actions taken by the United States against Iranian banks, entities, and individuals supporting Iran's proliferation and terrorism activities. He also provided government officials and bank regulators with information regarding specific transactions between Iranian entities and Chinese banks. Chinese banks and regulatory agencies responded that while they will implement UNSCRs and FATF regulations, China maintains normal diplomatic and trade relations with Iran, and will continue to seek access to Iranian oil and natural gas. Chinese bank regulators stated that in response to the UNSCRs and FATF measures, they have required financial institutions to perform greater due diligence when conducting business with Iranian entities, but expressed concern that the complexities of Iranian corporate structures and deceptive measures used by Iranian entities make this an ongoing challenge. End Summary.

ExIm Bank - No New business, Only Old Business (Tehran Subway)

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12. (S) Export Import Bank (ExIm) Bank Chairman Li Ruogu reported that ExIm stopped all new business with Iran when UNSCRs 1737 and 1747 went into effect, and that his bank is clean of any violations. He pointed out, however, that business initiated prior to the UNSCRs continued, and that those projects do not fall into prohibited categories. In response to U/S Levey's mention that statistics reveal an increase of non-oil exports from China to Iran, Li said China still maintains a normal trade relationship with Iran. Li added that Chinese exports of food, TVs, and air conditioners can all increase, particularly because Iran has the ability to pay for these goods. He also identified an ongoing ExIm-supported subway project that uses equipment from China as another possible explanation for the uptick in trade

statistics. Li stated that ExIm would stop any activity that violates UNSCRs and/or goes against FATF guidance.

13. (S) U/S Levey pointed out and passed a paper detailing information regarding the main contractor for the subway ) Khatam al-Anbya Construction, a company associated with the Iran Revolutionary Guard Corps (IRGC), an Iranian military organization whose leaders are sanctioned by the UN. He used this example to illustrate that it is very hard to determine who your customer is when dealing with Iran. U/S Levey asked Li to follow up on and clarify the existence and use of USD 1.4 billion in remaining export credits to Iran post the UNSCR sanctions. Li said he would investigate. Li also acknowledged that ExIm had met with the Central Bank of Iran to discuss facilitating trade flows prior to the imposition of UNSCRs, but said that no agreement was reached.

Bank of China - Yes, It's Tough to Know Your Client  
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14. (C) Bank of China (BOC) CEO Xiao Gang stated his bank's commitment to follow UNSCRs and stop any business with listed entities. Specifically, he said BOC's New York branch must follow U.S. law, but that its 11,000 domestic outlets must follow Chinese law. He reported, nevertheless, that domestic BOC outlets do not have any business with entities listed by OFAC. U/S Levey detailed deceptive behavior by Iranian entities, including their requests that banks not mention their names on financial documentation so that subsequent financial entities would not know the true client. He added that in part due to such behavior, FATF guidance on implementing UNSCRs 1737 and 1747 deems all transactions related to Iran as high risk, requiring "extraordinary due

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diligence." U/S Levey told Xiao "we think Iran is still trying to misuse your bank," and then passed information regarding specific transactions involving BOC in addition to information regarding specific Iranian companies related to the IRGC.

15. (S) BOC Chief Compliance Officer Geng Wei said, "on Iran, like North Korea, we cannot ignore the risk." Addressing one of the transactions on the paper passed, he said even with full due diligence it is extremely difficult to know the true client, because Sabalon used a third party media company to approach BOC. There are always cases in which we cannot truly discover the purpose of the transaction, he said. However, Geng pointed out that BOC management and the Board fully understand the problems and will help the bank continue its vigilance. He also noted that Chinese bank regulators have asked banks to pay attention to OFAC lists in addition to the UNSCR lists. He closed by detailing the public statements of other leading global banks that have cut off business with Iran due to the high cost and risk associated with Iranian transactions.

Bank Regulator - If in Doubt About the Client, Don't Do Business  
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16. (S) In his meeting with China Banking Regulatory Commission (CBRC) Chairman Liu Mingkang, U/S Levey reviewed his previous meetings with ExIm and BOC. He also provided Liu with specific information regarding the Defense Industries Organization's (DIO) transactions with BOC -- information not passed to BOC -- in addition to papers on Chinese company involvement with the IRGC and other Iranian institutions designated by OFAC. U/S Levey stated that he does not believe there is any mal intent by Chinese banks, which like other global banks place high concern on their reputations. Furthermore, he pointed out that China's recent FATF entry and China Merchant Bank's success in meeting regulatory standards to open a branch in the U.S. all point to the way both countries want to continue. Iran's deceptive activity poses a huge threat to that success, he explained.

17. (S) In response to U/S Levey's explanation of FATF guidelines that require members to go beyond checking just listed entities to ensure that all transactions have no connection to illicit Iranian activities, Liu pointed to the Ministry of Foreign Affairs as the authority in China for interpreting UN obligations. He also mentioned that the People's Bank of China represents China at the FATF. He then specified what the CBRC can and will do given its mission to protect China's banking industry from risk. He said CBRC banking supervisors will talk to the heads of banks to ensure that they have a system to check for connections to illicit Iranian transactions. He emphasized that the guiding principle will be "if you don't understand your client, don't do the business." Liu promised to share the results with U.S. banking regulators and welcomed continued information sharing to help Chinese banks identify illicit transactions and entities.

18. (S) In response to Liu's question, U/S Levey described Iran's attitude toward the international community's call to abandon its nuclear enrichment program as defiant. However, he pointed out that the situation is not hopeless as the costs of political and economic isolation could convince Iran that pursuing its nuclear program in defiance of UNSCRs is not worth it. Liu stated what he saw common ground between the U.S. and China: Iran's behavior is unacceptable; we need new pressure on the Iranians to get them back to the negotiation table; and we are against WMD whether in North Korea, Middle East or anywhere. However, he said, China, like Russia, has huge interests in Iran -- specifically its oil. As long as business transactions do not have connection to illicit activity, normal relations should continue. He added that if China finds that Iran is abusing those normal relations, China would put a stop to any illicit transactions immediately.

Ministry of Finance (MOF)  
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19. (C) Assistant Minister of Finance Zhu Guangyao reiterated China's agreement with the international community on the importance of AML/CFT, and pointed out China's own domestic needs for a strong regime to fight corruption. On UNSCRs, he said China's position is clear: find a way to carve out the

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legitimate business from sanctions so as to not hurt the Iranian people. Without going into specifics, he also alluded to China's own commercial interest in the economic relationship with Iran. Zhu thanked U/S Levey for U.S. support for China's FATF membership, and enthusiastically said that in that forum China can explore with its fellow members how to separate out Iran's legitimate business. He also pointed to the increasing U.S.-China bilateral engagement, ministry to ministry and through the Strategic Economic Dialogue, as having established trust in the economic sphere, which has expanded to issues like North Korea and Iran. U/S Levey pointed out that there is no problem with the Iranian people, but with a regime that is leading the country down a path of isolation which is hurting the people. He also asked whether Sinosure (state trade insurance company) supported transactions with Iran. Zhu confirmed that MOF has some authority over Sinosure's activities and said he would check.

110. (C) Zhu also raised China's concerns over Great Wall's request to be de-listed from OFAC's sanctions list. He said the Chinese government is satisfied that Great Wall, after its corporate reorganization, no longer has any connection to Iran. Great Wall even refused a meeting request by the Iranian President last year, he added. He said Great Wall has filled out the appropriate forms and provided all requested information and expressed hope that OFAC abide by USG internal timelines to render a speedy decision. U/S Levey confirmed that OFAC is following its timelines, but

pointed out that de-listing is not a simple matter of providing information but a consideration that involves becoming confident that the company will not repeat prior offenses.

People's Bank of China (PBOC): Due Diligence is Difficult

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¶11. (S) People's Bank of China (PBOC) Assistant Governor Ma Delun assured U/S Levey that the central bank would continue to provide full support for the implementation of UNSCRs on Iran. U/S Levey commended China's cooperation on Iran issues in the FATF, and explained that Iran's deceptive banking practices pose a threat to both Chinese banks and the international financial system. He noted that during a July 2007 meeting, Department of Treasury Secretary Paulson passed a U.S. report to PBOC Governor Zhou on transactions between Chinese financial institutions and Iranian entities. A/G Ma responded that the PBOC conducted a follow up investigation of the transactions cited in the report. While not disputing the information in the report, A/G Ma explained that some of the transactions in question happened before the UNSCRs took effect, and thus did not violate the UNSCRs, and some of the business relationships between Chinese banks and Iranian entities were terminated following the announcement of the resolutions. Also, the PBOC could not find evidence to prove that the transactions had been used for the alleged purposes cited in the U.S. report. Ma opined that though the PBOC wants to prevent WMD proliferation, it remains difficult to identify the proliferators when involved in transactions with Iranian entities, and urged U/S Levey to provide PBOC with additional, more detailed information.

¶12. (S) U/S Levey passed A/G Ma information on specific transactions to supplement the papers passed by Treasury Secretary Paulson in July, and agreed with Ma's assessment

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that it is very difficult to determine the end-client in transactions involving Iran. He explained that according to FATF requirements, banks should not go through with a transaction if the purpose of the transaction cannot be confirmed as legitimate. U/S Levey stated that some entities in Iran, including the DIO, are subject to sanctions regardless of the purpose of the transaction, and pointed out that some of the information he passed to A/G Ma covered transactions between Chinese banks and DIO-related entities after the implementation of UNSCRs 1737 and 1747. He asked A/G Ma to conduct further investigations of Chinese banks per the information provided. Ma replied that the PBOC will prevent any transactions between Chinese banks and any entities listed under UNSCRs. Regarding OFAC-listed entities, Ma stated that the PBOC has asked Chinese banks to conduct deeper due diligence, but noted that complex corporate structures in Iran make this difficult.

¶13. (S) Anti-Money Laundering Bureau Director Kang expressed concern that if Chinese banks cut off relationships with some Iranian entities, the Chinese banks would not be able to

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recover their losses. He showed particular concern about a subway project involving the Exim Bank of China. U/S Levey clarified that while certain Iranian entities appear to be engaged in civilian projects, some are owned by the IRGC, making due diligence work all the more important. Kang and A/G Ma agreed that though the PBOC does not wish to terminate all business interactions with Iran, the PBOC would further warn financial institutions to conduct in-depth due diligence when engaging with Iranian entities.

¶14. (U) U/S Levey cleared this cable.

RANDT